



Outpatient Pharmacy Dispensing Fee CY06 Methodology

PPS Working Group

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Overview



- Outpatient Pharmacy Dispensing Fee developed to cover the Salary Expense + Other Expense on a per Rx Procedure basis
- MEPRS code DAA, expenses stepped into B accounts, expenses stepped in FCC accounts and FCD from FY05
- Burdening Factors applied to arrive at final dispensing fee



MEPRS Methodology



- MEPRS Code DAA. Final operating costs after step down of outpatient pharmacy, total supply costs, total salary costs, and total number of scripts filled (weighted procedure of outpatient is 1)
- Expenses stepped into B accounts
- Expenses stepped in FCC (CHAMPUS beneficiary support) and FCD (support to other military medical activities)



Statistical Summary by Service



Service	Salary Expense	Supplies Expense	Other Expense	Total Expense	Weighted Rx Procedures
Army	\$94,146,570	\$511,707,388	\$34,272,005	\$640,125,964	19,433,208
Air Force	\$113,337,563	\$582,460,622	\$54,605,613	\$750,403,798	16,961,994
Navy	\$71,281,047	\$403,781,817	\$23,458,576	\$498,521,439	14,408,190
DoD Total	\$278,765,180	\$1,497,949,827	\$112,336,193	\$1,889,051,200	50,803,391
DoD Cost per Weighted Rx Procedure	\$5.49	\$29.49	\$2.21	\$37.18	
DoD Base for Dispensing Fee (Salary Expense + Other Expense)	\$7.70				



Changes from FY04 to FY05



		FY2004 Data			FY2005 Data		
Service	Statistic	Total Non-SalaryExp	Wtd RX Procs	Cost per Wproc	Total Non-SalaryExp	Wtd RX Procs	Cost per Wproc
Army	Service Total:	\$115,951,420	19,277,343	\$6.01	\$128,418,575	19,433,208	\$6.61
	Mean:	\$2.32			\$7.61		
	Standard Deviation:	\$6.76			\$2.99		
Air Force	Service Total:	\$153,360,550	18,575,123	\$8.26	\$167,943,176	16,961,994	\$9.90
	Mean:	\$10.20			\$11.27		
	Standard Deviation:	\$5.55			\$5.08		
Navy	Service Total:	\$92,909,613	14,969,237	\$6.21	\$94,739,622	14,408,190	\$6.58
	Mean:	\$8.26			\$8.86		
	Standard Deviation:	\$3.96			\$4.90		
DoD	Tri-Service Total:	\$362,221,584	52,821,703	\$6.86	\$391,101,373	50,803,391	\$7.70
	Mean:	\$8.90			\$9.82		
	Standard Deviation:	\$4.80			\$4.98		



Computation of CY06 Rate - Part 1



Part 1 - Computation of CY2006 Rate						
						Amount
Unadjusted Unit Cost (Raw Rate)						\$ 7.70
DMDC/MEPRS Conversion (Not Used for this Rate)						\$ -
Total Costs to be distributed						\$ 7.70
Adjustment Categories>>>>>			Civ Pay	Mil Pay	Other	Total
Ancillary Factors (See Computation Factor 2)			11.00%	25.00%	64.00%	100.00%
Total FY2005 Costs to be distributed			\$ 0.85	\$ 1.92	\$ 4.93	\$ 7.70
FY06 Pay Raise Factor						
Civilian Pay (See Computation Factor 3)	2.10%		\$ 0.02			
Military Pay (See Computation Factor 3)	3.10%			\$ 0.06		
Subtotal			\$ 0.86	\$ 1.98	\$ 4.93	\$ 7.78
Government Share Unfunded Cost Civilian Retirement (See Computation Factor 4)	9.90%		\$ 0.09			\$ 0.09
Subtotal			\$ 0.95	\$ 1.98	\$ 4.93	\$ 7.86
Asset Use Charge (See Computation Factor 5)	4.00%		\$ 0.04	\$ 0.08	\$ 0.20	\$ 0.31
Subtotal			\$ 0.99	\$ 2.06	\$ 5.12	\$ 8.18
DoD Deflator (See Computation Factor 6)	5.34%				\$ 0.27	\$ 0.27
Grand Total			\$ 0.99	\$ 2.06	\$ 5.40	\$ 8.45



Computation of CY06 Rate - Parts 2 & 3



Part 2 - Reimbursement Distribution				
Rate Component		Category of Funds		
		O & M Program	Military Personnel	Miscellaneous Receipts
FY2005 Civilian Pay Costs		\$ 0.85		
FY2006 Civilian Pay Raise		\$ 0.02		
FY2005 Military Pay Costs			\$ 1.92	
FY2006 Military Pay Raise			\$ 0.06	
FY2005 Other Costs		\$ 4.93		
FY2005/2006 Deflator		\$ 0.27		
Government Share of Unfunded Civilian Retirement				\$ 0.09
Asset Use Charge				
Civilian Pay				\$ 0.04
Military Pay				\$ 0.08
Other				\$ 0.20
TOTAL		\$ 6.07	\$ 1.98	\$ 0.40
Part 3 - CY2006 Reimbursable Pharmacy Dispensing Fee Rates				
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O&M Program 8	\$ 8.00	\$ 8.00	\$ 2.00	\$ 8.00
Percent of Full Rate	100%	100.00%	25%	100%



Burdening & Computation Factors used in Rate Development



Factor and Description		Values				Comments
1. DMDC/MEPRS Conversion		\$ 12.00				Dollar adjustment used to convert military medical personnel salary expenses reported in MEPRS to actual salaries. Amount is applied as a pay differential per visit. The Conversion Factor is calculated by DMDC using Personnel and MEPRS data.
		Values				
2. Distribution of Salary and Other Costs		Inpatient ("A" FCCs)	Ambulatory ("B" FCCs)	Dental ("C" FCCs)	Ancillary ("D" FCCs)	Percentage amounts derived from Report 8 - Distribution of Salary and Other Costs in MEPRS
	Civilian Pay Costs	18.00%	17.00%	13.00%	11.00%	
	Military Pay Costs	37.00%	41.00%	58.00%	25.00%	
	Other Costs	45.00%	42.00%	29.00%	64.00%	
	Totals	100.00%	100.00%	100.00%	100.00%	
3. FY2006 Pay Raise		Values				Fiscal Year (FY) 2006 President's Budget developed by the Office of the Under Secretary of Defense, Comptroller, Program/Budget Dept.
	Civilian Pay Raise	2.10%				100% of FY 2006 civilian pay raise of 2.10% is used.
	Military Pay Raise	3.10%				100% of FY 2006 military pay raise of 3.10% is used.
4. Government Share of Unfunded Retirement Costs		9.90%				Factor developed by DOD based on OMB Circular A-11 and OPM Benefits Administration Letter prescribe the methodology to be used in the computation of the unfounded civilian retirement, post retirement health benefits and post retirement life insurance.
5. Asset Use Charge		4.00%				Charge developed by DOD for the use of its assets (facilities and/or equipment) to recoup depreciation and interest on investment
6. FY2006 Budget Growth, Excluding CHAMPUS and Civilian Pay		5.34%				Factor is derived using the FY06 President's Budget, Defense Health Program, Exhibit OP-32. Amount is calculated as percentage growth in budget, excluding amounts for CHAMPUS and Civilian Pay - FY05/FY06 Net price growth (\$515,057) divided by Net FY05 Fund